

# ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

The Borough of Manhattan

Fourth Quarter 2009

## OPERATIONAL WEAKNESS BEGINNING TO EASE IN CORE AREAS

Apartment owners in every Manhattan submarket are recording marked revenue declines due to waning tenant demand. As the year progresses, however, the effects of the recession on operating fundamentals are becoming less severe in some areas. In the West Village/Downtown submarket, for example, the 7.6 percent year over year drop in revenues is the lowest in the borough, as moderate rent cuts in this desirable neighborhood have minimized the number of renters trading down into more cost-effective units. Meanwhile, previously deep asking rent reductions on the Upper East Side have stabilized vacancy, allowing owners to decrease concessions. In Upper Manhattan, conversely, vacancy rises and rent declines have been significant, as renters are opting to double up or leave the borough for more affordable rents elsewhere in the city. Consequently, revenues in Manhattan's northern neighborhoods are down nearly 20 percent year over year. In addition, the completion of 540 market-rate units and 380 for-sale units that may be employed as rentals could further increase vacancy in the area this year.

Sales velocity continues to slow across Manhattan, as buyers are waiting to see if operating fundamentals and property values are near bottom. Nevertheless, many investors are capitalizing on reduced competition and rising cap rates, as apartment sales year to date amount to more than \$600 million, though \$3.1 billion in assets were traded during the same period in 2008. So far this year, activity has decreased the least on the Upper West Side, although an increase in sales involving non-arm's-length parties and exiting institutional owners indicates that price declines may be overstated and velocity will ease going forward. Despite the decrease in revenues, buyers remain active in Upper Manhattan, north of 125th Street, where prices for most assets are below \$100,000 per unit. Buyers are finding rent-stabilized properties and buildings with below-market rents in the area, which offer stability during the recession and potential upside in healthier economic times.

## 2009 ANNUAL APARTMENT FORECAST



**Employment:** Across New York City, 103,800 workers are expected to be let go in 2009, a decline of 2.8 percent. Approximately, 27,200 positions were eliminated last year.



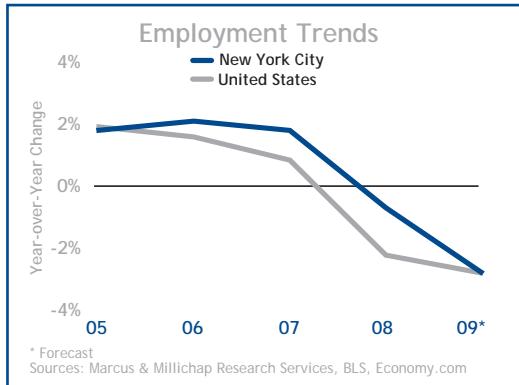
**Construction:** A surge in fourth quarter completions will push total deliveries for the year to 2,100 market-rate units, after 1,220 apartments were added in 2008.



**Vacancy:** In 2009, moderating apartment demand is forecast to cause vacancy in large, market-rate properties to climb 140 basis points to 4 percent, following a 50 basis point increase last year.



**Rents:** Asking rents are expected to decrease 7.4 percent to \$3,449 per month this year, and effective rents are projected to recede 7.8 percent to \$3,338 per month. In 2008, asking rents pushed 0.1 percent higher, though effective rents dipped 0.1 percent.

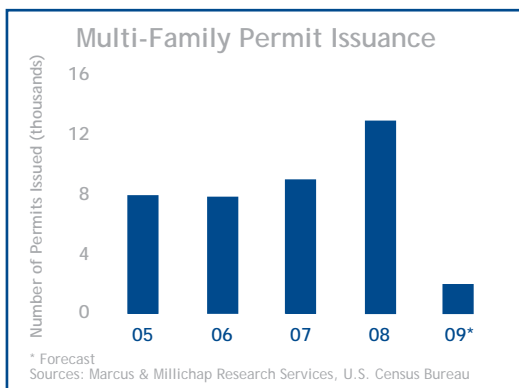


## ECONOMY

- ◆ Although payroll reductions have not been as severe as originally anticipated, recessionary pressures have still resulted in a sizable contraction of the New York City work force. In the past 12 months, head counts in all five boroughs have decreased by a total of 147,400 jobs, or 3.9 percent. In comparison, 57,200 new hires were added during the previous one-year span.
- ◆ Office-using employment sectors, an indicator of the city's economic health, have declined at a quicker pace than total employment. Since the third quarter of 2008, white-collar employment declined by 64,100 positions, a 5.2 percent reduction.
- ◆ The citywide unemployment rate is currently 10.3 percent, an increase of 440 basis points from one year ago.
- ◆ The median household income in the MSA has retreated 6.5 percent to \$58,400 annually over the past 12 months. Shrinking paychecks are eroding local residents' ability to meet housing costs such as rent and mortgage payments.
- ◆ **Outlook:** Across New York City, 103,800 workers are expected to be let go in 2009, a decline of 2.8 percent. Approximately, 27,200 positions were eliminated last year.

## HOUSING TRENDS

- ◆ In the most recent 12-month period, multi-family permit issuance fell 85 percent to 1,910 units. Although weaker residential demand is slowing development activity, the decline also is attributable to heightened permitting one year ago, before the expiration of the 421a tax abatement program.
- ◆ The Manhattan condominium market continues to reel from slower household creation and easing residential demand. In the most recently reported quarter, the median sales price fell more than 21 percent year over year to \$990,000 per unit. In addition to declining prices, the average marketing time has surged 34 percent year over year to 181 days, while listing inventory has increased 12 percent to 4,980 units.
- ◆ As further evidence of the struggling condominium market, the Sheffield57 building was recently sold at a bank auction for approximately \$20 million, well below the \$418 million paid four years ago. Tepid sales activity and the highly leveraged acquisition of the stalled 597-unit condo conversion caused the previous owner to default on the property.
- ◆ Foreclosure proceedings have begun on the 304-unit Rector Square condominium conversion in Battery Park. Despite being able to sell or rent a number of units, the development's owner recently defaulted on a \$165 million mortgage loan.
- ◆ **Outlook:** Elevated construction and shrinking housing demand will underpin an extended decline in the Manhattan for-sale residential market. Condominium inventory is expected to expand by nearly 3,600 units in 2009, with 900 units slated for completion in the fourth quarter alone. Additionally, projects under way are projected to yield at least 1,100 units next year.



## CONSTRUCTION

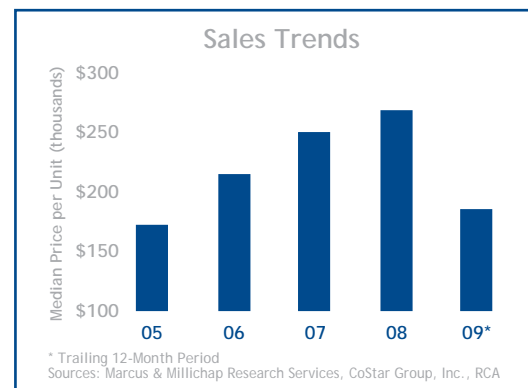
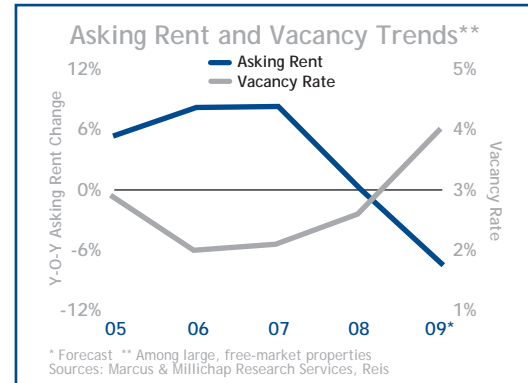
- ◆ In the 12-month period ending in the third quarter, apartment construction output fell to 900 market-rate units, compared with the delivery of 1,860 units in the previous year. Over the past five years, an average of 1,750 units has been completed annually.
- ◆ There are nearly 4,300 market-rate units under construction in Manhattan with target delivery dates stretching into 2010 and beyond. Nearly 1,200 units are slated to be brought online in the fourth quarter of this year.
- ◆ The Silver Towers in Midtown West is the largest project under way in the borough, consisting of 1,087 market-rate and 270 affordable units. Although completion is slated for early 2010, units began renting in May, and approximately 25 percent of the building has been pre-leased.
- ◆ There are three projects totaling 830 units in the planning stages, though limited construction capital and weakening operating fundamentals cast doubt on the completions of these developments.
- ◆ **Outlook:** A surge in fourth quarter additions will push total deliveries for the year to 2,100 market-rate units, after 1,220 apartments were brought online in 2008.

## VACANCY AND RENTS

- ◆ Among Manhattan's large, market-rate apartment complexes, vacancy increased 130 basis points year over year to end the third quarter at a still-healthy 3.7 percent. In the previous 12 months, vacancy inched 20 basis points higher.
- ◆ During the last year, market-rate asking rents have declined 8.3 percent to \$3,491 per month, while effective rents have retreated 8.8 percent to \$3,379 per month. In the preceding 12-month stretch, asking rents and effective rents each appreciated 3.8 percent.
- ◆ **Outlook:** In 2009, moderating apartment demand is forecast to cause vacancy in large, market-rate properties to climb 140 basis points to 4 percent. Asking rents are expected to decrease 7.4 percent to \$3,449 per month this year, and effective rents will recede 7.8 percent to \$3,338 per month.

## SALES TRENDS\*\*

- ◆ Falling NOIs and property values are keeping a large number of buyers on the sidelines. Over the past 12 months, deal flow has subsided 35 percent, after declining 30 percent in the previous year.
- ◆ In step with moderating investor demand, the median price has dropped 21 percent in the last 12 months to \$184,600 per unit. In the preceding year, the median price slipped 7 percent.
- ◆ Although marketwide cap rates averaged around 5 percent in 2008, prices are falling in tandem with revenues. So far this year, initial yields for most properties are starting in the mid- to high-5 percent range.
- ◆ **Outlook:** Downzoning efforts in the Lower East Side previously buoyed investment demand in and around the neighborhood, though still-elevated asking prices are now discouraging activity. Limited financing, particularly for asset repositioning efforts, will continue to thin the buyer pool in this area. As a result, prices are expected to decline in line with weaker demand.



\*\* Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

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## CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ Compared to other core property sectors, apartments have fared best due to the availability of financing through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Recent modifications to GSE guidelines will impact lender decisions, however, as borrower requirements include more substantial apartment ownership experience.
- ◆ Loan-to-value requirements range from 55 percent to 75 percent. Portfolio lenders are issuing loans at all-in rates of 6.00 percent to 6.75 percent for a five-year term and 6.9 percent to 8.0 percent for a 10-year term. Rates among agency lenders are roughly 100 basis points to 150 basis points lower. The government's creation of a conservatorship for Fannie Mae and Freddie Mac has most likely boosted confidence in the two GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties, as the conservatorship is due to expire at the end of the year.
- ◆ Delinquencies will rise further as a wave of maturities approaches; however, at-risk borrowers may find lenders amenable to loan extensions/modifications. Furthermore, Freddie Mac is under way on its second securitization of multi-family debt this year, and the government's TALF program is expected to at least provide a much-needed spark to the traditional CMBS market.

## MANHATTAN SALES HIGHLIGHTS

Property Address	Sales Price	Number of Units	Price per Unit	Price per Square Foot
488 Seventh Avenue	\$45,300,000	95	\$476,842	\$510
10 Stanton Station	\$10,500,000	146	\$71,918	\$63
41-43 E. Seventh Street	\$9,000,000	25	\$360,000	\$474
51 Payson Avenue	\$8,182,000	66	\$123,970	\$153
14-20 Seaman Avenue	\$8,182,000	65	\$125,877	\$161
110-112 Mulberry Street	\$6,500,000	36	\$180,556	\$350
659 W. 162nd Street	\$6,218,000	52	\$119,577	\$105
150 W. 84th Street	\$5,350,000	20	\$267,500	\$403
79 Mott Street	\$5,200,000	18	\$288,889	\$461
1969 Amsterdam Avenue	\$4,950,000	33	\$150,000	\$229
132 W. 70th Street	\$4,300,000	8	\$537,500	\$669
304 W. 112th Street	\$3,900,000	12	\$325,000	\$401
493 Second Avenue	\$3,850,000	18	\$213,889	\$408
2140 Fifth Avenue	\$3,821,566	52	\$73,492	\$78
88-98 Seaman Avenue	\$3,720,000	33	\$112,727	\$124
516-522 W. 156th Street	\$3,650,000	44	\$82,955	\$103
350 E. 89th Street	\$2,900,000	12	\$241,667	\$344
131 W. 80th Street	\$2,800,000	9	\$311,111	\$436
240 Seaman Avenue	\$2,480,000	26	\$95,385	\$121
106 E. 30th Street	\$2,425,000	7	\$346,429	\$511
114 10th Avenue	\$2,000,000	13	\$153,846	\$206
161 W. 133rd Street	\$1,700,000	17	\$100,000	\$180
336 W. 77th Street	\$1,700,000	10	\$170,000	\$255
148 W. 141st Street	\$1,570,000	30	\$52,333	\$137
160 E. 102nd Street	\$1,295,000	8	\$161,875	\$264
165 E. 116th Street	\$1,100,000	6	\$183,333	\$251

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated using seasonally adjusted quarterly averages. Sales data includes transactions valued at \$500,000 and greater unless otherwise noted. Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics, CoStar Group, Inc., Economy.com, National Association of Realtors, Prudential Douglas Elliman, Real Capital Analytics, Reis, TVR/Dodge Pipeline, U.S. Census Bureau.